

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

York County, which was originally named Charles River County, was one of Virginia's eight original "shires" formed in 1634. It was renamed nine years later in 1643 when the river that determines the County's character was also given the name of the then Duke of York. York County has played a major role in the development of this nation. Most importantly, it was the location of the culminating battle of the Revolutionary War and the subsequent surrender of Lord Cornwallis and his British army on October 19, 1781.

The County of York, Virginia (the County) is organized under the County Executive form of government (as defined under Virginia Law). The governing body of the County is the Board of Supervisors that establishes policies for the administration of the County. The Board of Supervisors comprises five members: one member from each of five districts, elected for a four-year term by the voters of the district in which the member resides. The Board of Supervisors appoints a County Executive (County Administrator) to act as the administrative head of the County.

The financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United State of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles. The County's significant accounting and reporting policies are described below.

A. The Reporting Entity

The County's financial reporting entity is defined and its financial statements are presented in accordance with GASB Statement No.14, *The Financial Reporting Entity*. This Statement defines the distinction between the County as a primary government and its related entities. The financial reporting entity consists of the primary government and its discretely presented component units, which are legally, separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. The primary government may also be financially accountable if the component unit is fiscally dependent on the primary government regardless of whether the component unit has a separately elected governing board. As such, the York County School Division (the School Board) and the Industrial Development Authority of York County (IDA) are reported as separate and discretely presented component units in the County's reporting entity. The primary government is hereafter referred to as the "County" and the reporting entity, which includes the County and its component units, is hereafter referred to as the "Reporting Entity." As required by GAAP, the accompanying basic financial statements include all activities of the County.

The component unit columns in the basic financial statements include the financial data of the County's two discretely presented component units. The discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the primary government. These component units are fiscally dependent on the County and provide services primarily to the citizens of the County. All of the component units have a June 30 year-end. A description of the discretely presented component units follows:

The **York County School Division (the School Board)** is responsible for elementary and secondary education within the County. As of January 1, 1996, the citizens of the County have elected the members of the School Board. The School Board is fiscally dependent upon the County because the Board of Supervisors approves the School Board's annual budget, levies the necessary taxes to finance the School Board's operations and approves the borrowing of money and the issuance of bonds. Separate audited financial statements are available from the School Board at 302 Dare Road, Yorktown, Virginia, 23692.

The **Industrial Development Authority of York County (IDA)** was established under the Industrial Development and Revenue Bond Act - *Code of Virginia*. A separate board appointed by the Board of Supervisors governs the IDA. The IDA is fiscally dependent upon the County because substantially all of its income is derived from an appropriation from the County. The IDA has the responsibility to promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate or to remain in the County. Separate audited financial statements are available from the IDA at P.O. Box 612, Yorktown, Virginia, 23690.

B. Joint Venture Government Organizations

The County does not include in the basic financial statements certain authorities created as separate governments under the laws of the Commonwealth of Virginia. These authorities are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the County although the County Board of Supervisors appoints certain members of their governing bodies. While the County may have some reversionary interest in the assets of these entities in the event they are dissolved, the nature and extent of that interest would be subject to negotiation at the time of dissolution. The County does not include these entities as component units because they do not meet the criteria as set forth in GASB Statement No. 14, *The Financial Reporting Entity*.

The **Virginia Peninsulas Public Service Authority (VPPSA)** was established under the Virginia Water and Sewer Authorities Act - *Code of Virginia*. A separate ten-member board of which the County appoints one representative governs VPPSA. VPPSA was formed for the purpose of developing regional refuse collection, waste reduction and disposal alternatives with the ultimate goal of acquiring, financing, constructing and/or operating and maintaining a residential, commercial and industrial garbage and refuse collection and disposal system or systems. VPPSA is fiscally independent of the County because substantially all of its income is generated through the collection of user fees. Separate audited financial statements are available from VPPSA at 300 McLaws Circle, Suite 200, Williamsburg, Virginia 23185.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The **Virginia Peninsula Regional Jail Authority (Jail Authority)** was created pursuant to Article 3.1, Chapter 3, Title 53.1 of the *Code of Virginia* to finance, acquire, construct, equip, maintain and operate a regional jail. A separate seven-member board of which the County Sheriff serves as a member and the County appoints one representative governs the Jail Authority. The Jail Authority is fiscally independent of the County because substantially all of its income will be generated from per diem payments from the member jurisdictions and reimbursements from the Commonwealth of Virginia for a portion of the capital costs, a portion of salaries and benefits of certain regional jail employees and a per diem charge for all prisoners housed at the jail. Separate audited financial statements are available from the Jail Authority, c/o the County of James City at P. O. Box 8784, Williamsburg, Virginia 23187-8784.

The **Middle Peninsula Juvenile Detention Commission (the Commission)** was created to enhance the region for the protection of the citizens by the construction, equipping, maintenance and operation of a new juvenile detention facility serving the eighteen member jurisdictions of which the Director of Community Services serves as the County's representative on the board. The Commission is fiscally independent of the County because substantially all of its income will be generated from per diem payments from the member jurisdictions and reimbursements from the Commonwealth of Virginia for a portion of the capital costs. Separate audited financial statements are available from the Commission, c/o the County of James City at P. O. Box 8784, Williamsburg, Virginia 23187-8784.

C. Implementation of New Accounting Principles

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*. This statement, known as the "Reporting Model" affects the way the County prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports. Effective July 1, 2002, the County implemented GASB Statement No. 34 (GASB 34)

GASB 34 established new requirements and a new reporting model for the annual financial statements for state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

GASB 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the County's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is comparable to analysis the private sector provides in their annual reports.

The County adopted the provisions of GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. This statement amends GASB 34 to either clarify certain provisions or modify other provisions that may have unintended consequences in some circumstances.

The County also adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements.

D. Government-wide and Fund Financial Statements

The basic financial statements are composed of both government-wide and fund financial statements. The government-wide statements, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the County and its component units. Generally, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely primarily on fees and charges for services. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities presents a comparison between direct expenses of a function and program revenues. Direct expenses are those that are specifically associated with a specific function or segment. Program revenues include a) fees, fines and charges paid by the recipients of goods or services offered by the function or segment and b) grants and contributions that are restricted to meet the operations or capital requirements of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

E. Measurement Focus, Basis of Accounting, Financial Statement Presentation

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

Revenue from the use of money and property and from intergovernmental reimbursement grants is recorded as earned. Other revenues are considered available to be used to pay liabilities of the current period if they are collectible within the current period or within 45 days thereafter. The primary revenues susceptible to accrual include property taxes, sales taxes and other local taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Expenditures are generally recorded when the related fund liability is incurred. Debt service expenditures, as well as compensated absences and claims and judgments, are recorded when payment is due.

The County reports the following major governmental funds:

General Fund. The General Fund is the County's primary operating fund. It is used to account for all revenue sources and expenditures which are not required to be accounted for in other funds.

Debt Service - Education Fund. The Education Debt Redemption Fund is used to account for the receipt and payment of bonds and loans issued for the construction and maintenance of educational facilities.

Capital Projects – County Capital Fund. The County Capital Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

The County reports the following nonmajor governmental funds:

Special Revenue Funds. The Children's Services/Head Start and Virginia Public Assistance Funds are used to account for the proceeds of Federal, state and local sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund. The Fire and Rescue and Public Facilities Funds are used to account for the receipt and payment of bonds and loans issued for fire and rescue equipment and facilities and for the construction and maintenance of County facilities.

Yorktown Capital Improvements Fund. The Yorktown Capital Improvements Fund is used to account for financial resources to be used for the acquisition or construction in the historical Yorktown area.

The County reports the following major enterprise funds:

Sanitary District No. 2 Fund. This fund accounts for the property, plant and equipment as of January 1, 1992 of the Sanitary District No. 2 utility systems.

Solid Waste Fund. This fund accounts for the operations of the County's solid waste disposal system.

Sewer Utility Fund. This fund accounts for the operations of the County's sewer utility systems.

Yorktown Revitalization Fund. This fund accounts for the revitalization project in Yorktown.

The County reports the following nonmajor enterprise funds:

York Sanitary District Fund. This fund accounts for the property, plant and equipment as of January 1, 1992 of the Sanitary District No. 1 utility systems.

Water Enterprise Fund. This fund accounts for the property, plant and equipment as of January 1, 1992 of the upper County utility systems.

Water Utility Fund. This fund accounts for operations of the County's water utility systems.

The County reports the following additional fund types:

Internal Service Fund. The Transportation Fund accounts for the operation of the vehicle maintenance and replacement services that are provided to County departments on a cost reimbursement basis.

Agency Funds. These funds are custodial in nature (assets and liabilities) and do not involve measurement of results of operations.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting" (Statement No. 20), proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor Accounting Practices Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, provided those standards do not conflict with GASB. Under paragraph 7 of Statement No. 20, the County has elected not to apply FASB pronouncements issued after November 30, 1989.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's Sewer Utility and various other functions of the government; elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted on an as needed basis.

F. Property Taxes

The two major sources of property taxes are described below:

Real Estate

The County levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of January 1 on the estimated market value of the property. All real estate property is assessed biennially.

Real estate taxes are billed in semi-annual installments due June 5 and December 5. Liens are placed on the property on the date real estate taxes are delinquent, June 6 and December 6, and must be satisfied prior to the sale or transfer of the property. Real estate taxes reported as revenue are for the assessment due December 5, 2002 and June 5, 2003, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for calendar years 2002 and 2003 was \$.86 per \$100 of assessed value.

Personal Property

The County levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1.

Personal property taxes are billed in equal semi-annual installments due June 5 and December 5. Personal property taxes do not create a lien on property; however, County decals, which are required by law for all vehicles garaged in the County, may not be issued to any individual having outstanding personal property taxes. The personal property taxes reported as revenue are for the levies due December 5, 2002, and June 5, 2003, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for calendar years 2002 and 2003 was \$4.00 per \$100 of assessed value.

The County's property tax collection records show that 95.93% of the property taxes due for the current tax year were collected.

G. Allowance for Uncollectible Amounts

Provision for uncollectible property taxes is based upon a historical percentage of accounts written off applied to the total levies of all years carried in taxes receivable and, in certain cases, specific account analysis.

Provision for uncollectible solid waste, water and sewer service bills is based upon a historical analysis of uncollected accounts and, in certain cases, specific account analysis.

H. Cash and Temporary Investments

The County utilizes the pooled cash investment method. Income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and temporary investments of each fund to the total pooled cash and temporary investments. See Note 2 for description of cash and temporary investment policies. Investments are stated at fair value.

I. Inventories

Inventories consists of materials and supplies held for future consumption and are stated using the first-in, first-out method. Inventory is accounted for under the purchase method.

J. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

K. Capital Assets

Capital assets include land, land improvements, buildings and improvements, infrastructure, equipment, vehicles and historical artwork. Land, land improvements, infrastructure, equipment, vehicles and historic artwork that individually cost \$5,000 or more and buildings and improvements that individually cost \$30,000 or more and with useful lives greater than two years are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Such assets are recorded at historical cost or estimated historical cost if constructed or purchased. Donated capital assets are recorded at fair market value at the date of donation. Capital assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land improvements	15 - 20
Buildings and improvements	25 - 50
Infrastructure	10 - 50
Equipment	3 - 20
Vehicles	3 - 20

L. Compensated Absences

County employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. In the governmental fund types, the cost of vacation and sick pay is recognized when payments are made to employees. The current and noncurrent liability for accrued vacation and sick leave benefits at June 30, 2003 has been reported in the government-wide statements, representing the County's commitment to fund such costs from future operations. In the proprietary funds, the amount of compensated absences recognized is the amount earned. Such benefits are included in the government-wide statements.

M. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance report tentative management plans that are subject to change.

N. Retirement Plan

Retirement Plan contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30-year period. The County's policy is to fund pension costs as they accrue.

O. Statement of Cash Flows

For purposes of the statement of cash flows, cash and temporary investments with original maturities of three months or less are considered to be cash and cash equivalents.

P. Use of Estimates

Management of the County has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Any differences between these estimates and actual results should immaterially affect the County's reporting of its financial position.

Q. Credit Risk

The assessed value of real estate and personal property for the County's ten largest taxpayers comprises 13.61% of the County's tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the County's customer base.

2. DEFICIT FUND EQUITY

The Yorktown Revitalization Fund enterprise fund had a deficit fund balance of \$36,440 at June 30, 2003. Management intends to cover the incurred expenses with future program revenues.

3. DEPOSITS AND INVESTMENTS

The County maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Cash and Temporary Investments." In addition, the County has restricted cash and investments including cash and investments held with escrow agents.

At June 30, 2003, cash and investments consisted of:

Bank deposits	\$ 5,963,525
Restricted cash and investments	1,622,991
Petty cash	5,255
Investments	72,201,128
Balance of Joint Sanitary Board	(24,071)
Total cash and investments	<u>\$ 79,768,828</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

3. DEPOSITS AND INVESTMENTS, Continued

A. Deposits

At June 30, 2003, the carrying value of deposits with banks and savings institutions was \$5,923,680 and the bank balance was \$8,017,678. The bank balance was covered by Federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act").

Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of insured limits. Deposits collateralized under the Act are considered to be insured.

The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Petty cash totals \$5,255, of which \$600 belongs to the School Board.

The carrying amount of deposits for the IDA was \$39,845 and the bank balance was \$40,115. The bank balance was covered by the Federal depository insurance.

The carrying amount of the County's restricted cash - escrows was \$486,700 at June 30, 2003. Of this amount, \$5,000 is surety deposits for junkyards held in the County's and the junkyards' names; \$210,171 represents monies held in escrow for the debt payments on the capital lease with the Virginia Peninsulas Public Service Authority; \$68,963 is for the debt payments for the sewer revenue bonds; \$62,566 represents monies held in escrow for retainage; and \$140,000 represents monies held in escrow for the purchase of land. These amounts are fully collateralized under the Virginia Security for Public Deposits Act.

The carrying amount of the IDA's restricted cash - escrow was \$116,361 as of June 30, 2003, which represents monies held for the Virginia Department of Transportation for wetlands mitigation. This amount is fully collateralized under the Virginia Security for Public Deposits Act.

B. Investments

Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "2a7 like pool" risk limiting requirements of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" with the portfolio securities valued by the amortized cost method. Investments with a maturity date of one year or less are stated at amortized cost. The fair value of the County's position in the LGIP is the same as the value of the pool shares. All other investments are stated at fair value.

The County's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2003. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its safekeeping agent in the County's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or its safekeeping agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or by its safekeeping department or agent but not in the County's name.

At June 30, 2003, the County's investment balances were as follows:

	<u>C A T E G O R Y</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
<u>Pooled:</u>					
Bonds	<u>\$17,085,100</u>	<u>\$ —</u>	<u>\$ —</u>	\$ 17,085,100	\$ 17,085,100
<u>Investments not subject to categorization:</u>					
Money Market Funds				8,271,061	8,271,061
Investment in State Treasurer's Local Government Investment Pool (LGIP)				<u>46,496,071</u>	<u>46,496,071</u>
				<u>\$ 71,852,232</u>	<u>\$ 71,852,232</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

3. DEPOSITS AND INVESTMENTS, Continued

Because the cash and investments of the School Board are included in the County's pool of investments in bonds and LGIP, information such as investment categories cannot be separately presented for these categories. Of the amounts invested in bonds and LGIP, \$4,147,606 belongs to the School Board.

At year-end, the IDA investment balances were as follows:

C A T E G O R Y			Carrying Amount	Fair Value
1	2	3		
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	\$ -	\$ -

Investments not subject to categorization:

Investment in State Treasurer's Local Government Investment Pool (LGIP)	<u>\$ 348,896</u>	<u>\$ 348,896</u>
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At June 30, 2003, the County did not have any investments in overnight repurchase agreements. Due to significantly higher cash flows at certain times during the year, the County invested in overnight repurchase agreements for which the dealer held the underlying securities.

4. NOTES RECEIVABLE

The County and the U.S. Army Corps of Engineers (the Corps) have entered into an escrow agreement to establish an escrow account of \$110,000 to guarantee the completion and successful operation of a wetlands restoration project. The agreement states that the County has become obligated to the Corps for a wetlands mitigation as the result of the construction by the County of the Tabb Library (the Project) and consequently has the option of accomplishing such mitigation either through the payment to a mitigation bank with available credits in the Project's watershed or through the successful completion of a wetlands restoration project. The Corps has granted preliminary approval for a wetlands restoration project known as the Browns Park Stream Restoration and Wetlands Creation Plan (the Plan). Until the completion of the restoration project, the IDA deposited the funds with an escrow agent to guarantee the completion and successful operation of the Plan. The outstanding balance of the note receivable at June 30, 2003 was \$116,361.

The County has agreed to loan the IDA up to \$1,000,000 in connection with the relocation and renovation of the Yorktown Freight Shed Building as part of a multi-million dollar renovation project to the Yorktown waterfront area. In order to realize significant savings on the cost of the relocation and renovation of the Yorktown Freight Shed Building, the County is utilizing historic building renovation tax credits, which are available through both federal and Virginia income tax codes. In order to be able to utilize the tax credits, title to the Freight Shed building was conveyed by the Yorktown Trustees to Yorktown Freight Shed, L.P. (a Virginia limited partnership), which has been created to hold title to the building and to oversee the project with money provided by the County through the IDA. Interest on the outstanding principal balance of the note is due at a rate of 5.5% per annum. The outstanding principal balance of the note receivable at June 30, 2003 was \$397,524.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

Primary Government:

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 8,023,515	\$ 244,700	\$ (34,183)	\$ 8,234,032
Construction in progress	485,729	2,032,233	(457,817)	2,060,145
Total capital assets not being depreciated	8,509,244	2,276,933	(492,000)	10,294,177
Capital assets being depreciated:				
Land improvements	3,006,259	-	-	3,006,259
Buildings and improvements	26,168,313	457,817	-	26,626,130
Infrastructure	2,990,338	-	-	2,990,338
Equipment	5,893,238	391,152	(139,575)	6,144,815
Vehicles	7,120,662	848,874	(465,342)	7,504,194
Total capital assets being depreciated	45,178,810	1,697,843	(604,917)	46,271,736
Less accumulated depreciation for:				
Land improvements	(1,391,774)	(140,795)	-	(1,532,569)
Buildings and improvements	(4,453,492)	(526,233)	-	(4,979,725)
Infrastructure	(532,087)	(82,358)	-	(614,445)
Equipment	(3,705,999)	(438,159)	75,280	(4,068,878)
Vehicles	(3,910,536)	(604,758)	386,311	(4,128,983)
Total accumulated depreciation	(13,993,888)	(1,792,303)	461,591	(15,324,600)
Total capital assets being depreciated, net	31,184,922	(94,460)	(143,326)	30,947,136
Governmental activities capital assets, net	\$ 39,694,166	\$ 2,182,473	\$ (635,326)	\$ 41,241,313

Business-type Activities:	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 3,914,402	\$ 79,412	\$ -	\$ 3,993,814
Construction in progress	16,630,921	4,148,844	(7,651,175)	13,128,590
Investment in historical artwork	255,000	-	(79,412)	175,588
Total capital assets not being depreciated	20,800,323	4,228,256	(7,730,587)	17,297,992
Capital assets being depreciated:				
Land improvements	-	8,295	-	8,295
Buildings and improvements	9,844,308	398,782	(46,936)	10,196,154
Infrastructure	65,382,268	8,423,835	(17,992)	73,788,111
Equipment	2,214,277	113,689	(40,175)	2,287,791
Vehicles	816,337	-	-	816,337
Total capital assets being depreciated	78,257,190	8,944,601	(105,103)	87,096,688
Less accumulated depreciation for:				
Land improvements	-	(207)	-	(207)
Buildings and improvements	(5,460,648)	(422,372)	43,736	(5,839,284)
Infrastructure	(14,548,827)	(1,375,449)	7,381	(15,916,895)
Equipment	(1,559,666)	(183,989)	32,028	(1,711,627)
Vehicles	(338,652)	(63,642)	-	(402,294)
Total accumulated depreciation	(21,907,793)	(2,045,659)	83,145	(23,870,307)
Total capital assets being depreciated, net	56,349,397	6,898,942	(21,958)	63,226,381
Business-type activities capital assets, net	<u>\$ 77,149,720</u>	<u>\$ 11,127,198</u>	<u>\$ (7,752,545)</u>	<u>\$ 80,524,373</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

5. CAPITAL ASSETS, Continued

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:

General government	\$ 284,523
Judicial services	213,689
Public safety	382,652
Environmental and development services	49,597
Finance and planning	152,496
Education	117,915
Human services	662
General services	61,684
Community services	118,571
Internal Service Fund - charged to functions based on usage	<u>410,514</u>
Total depreciation expense - governmental activities	<u>\$ 1,792,303</u>

Business - type activities:

Sanitary District No. 2	\$ 442,745
Solid waste	165,872
Sewer utility	1,279,054
Yorktown Revitalization	12,850
York Sanitary District	84,742
Water enterprise	16,251
Water utility	<u>44,145</u>
Total depreciation expense - business-type activities	<u>\$ 2,045,659</u>

Discretely Presented Component Units**School Board:**

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 4,669,160	\$ -	\$ -	\$ 4,669,160
Construction in progress	665,859	12,009,347	-	12,675,206
Total capital assets not being depreciated	5,335,019	12,009,347	-	17,344,366
Capital assets being depreciated:				
Improvements other than buildings	2,259,725	126,470	-	2,386,195
Buildings and improvements	111,006,508	2,644,258	-	113,650,766
Equipment	1,096,415	309,241	(56,037)	1,349,619
Vehicles	6,128,772	825,800	(250,331)	6,704,241
Total capital assets being depreciated	120,491,420	3,905,769	(306,368)	124,090,821
Less accumulated depreciation for:				
Improvements other than buildings	(991,497)	(62,022)	-	(1,053,519)
Buildings and improvements	(28,475,757)	(2,262,461)	-	(30,738,218)
Equipment	(392,001)	(96,162)	27,143	(461,020)
Vehicles	(2,731,299)	(457,053)	229,355	(2,958,997)
Total accumulated depreciation	(32,590,554)	(2,877,698)	256,498	(35,211,754)
Total capital assets being depreciated, net	87,900,866	1,028,071	(49,870)	88,879,067
School Board capital assets, net	<u>\$ 93,235,885</u>	<u>\$ 13,037,418</u>	<u>\$ (49,870)</u>	<u>\$ 106,223,433</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

5. CAPITAL ASSETS, Continued

Industrial Development Authority:

Capital assets not being depreciated:

Land

Construction in progress

Total capital assets not being depreciated

Capital assets being depreciated:

Building held for sale

Total capital assets being depreciated

Less accumulated depreciation for:

Building held for sale

Total accumulated depreciation

Total capital assets being depreciated, net

Industrial Development Authority capital assets, net

Beginning Balance	Additions	Reductions	Ending Balance
\$ 165,908	\$ 306,600	\$ -	\$ 472,508
-	509,388	-	509,388
165,908	815,988	-	981,896
2,717,048	-	-	2,717,048
2,717,048	-	-	2,717,048
(203,779)	(67,926)	-	(271,705)
(203,779)	(67,926)	-	(271,705)
2,513,269	(67,926)	-	2,445,343
\$ 2,679,177	\$ 748,062	\$ -	\$ 3,427,239

5. **CAPITAL ASSETS**, Continued

Construction Commitments:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Back Creek Road sewer	\$ 110,954	\$ 62,976
Bypass/Rochambeau water	557,243	36,895
Dare Heights sewer	1,095,174	75,000
Dare water and sewer	691,763	57,544
Fire and Life Safety equipment	899,901	1,017,399
Lodge Road pump station	229,015	684,485
Luther Drive sewer rehab	-	66,717
Marlbank sewer	285,578	96,822
Route 199 force main	-	348,003
Sewer utility equipment	-	57,999
Skimino Hills sewer	884,947	166,591
Telephone equipment	-	105,847
Yorktown utility undergrounding	89,121	57,506
	<u>\$ 4,843,696</u>	<u>\$ 2,833,784</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt during the year ended June 30, 2003:

	Balance at July 1, 2002	Additions	Reductions	Balance at June 30, 2003	Due Within One Year
<u>Governmental Activities:</u>					
General obligation bonds	\$ 38,645,400	\$ 7,715,000	\$ (2,620,400)	\$ 43,740,000	\$ 2,830,000
Literary loans	1,350,000	-	(160,000)	1,190,000	160,000
Capital leases	372,288	-	(96,041)	276,247	100,776
Lease revenue refunding bonds	3,385,000	-	(315,000)	3,070,000	320,000
Note payable	3,095,971	-	(167,780)	2,928,191	180,408
Compensated absences	2,848,189	427,750	(384,477)	2,891,462	100,000
Total Governmental Activities	<u>\$ 49,696,848</u>	<u>\$ 8,142,750</u>	<u>\$ (3,743,698)</u>	<u>\$ 54,095,900</u>	<u>\$ 3,691,184</u>
<u>Business-type Activities:</u>					
General obligation bonds	\$ 69,600	\$ -	\$ (69,600)	\$ -	\$ -
Revenue bonds	9,652,440	-	(168,153)	9,484,287	173,566
Capital leases	1,559,167	1,545,000	(1,614,167)	1,490,000	140,000
Closure costs	304,244	-	(49,401)	254,843	60,000
Compensated absences	225,318	29,045	(28,114)	226,249	3,000
Total Business-type Activities	<u>\$ 11,810,769</u>	<u>\$ 1,574,045</u>	<u>\$ (1,929,435)</u>	<u>\$ 11,455,379</u>	<u>\$ 376,566</u>
<u>Discretely Presented Component Units-</u>					
<u>School Board:</u>					
Capital leases	\$ 509,250	\$ -	\$ (97,000)	\$ 412,250	\$ 97,000
Compensated absences	1,262,285	635,204	(439,745)	1,457,744	1,457,744
Workers' compensation claims	1,517,263	334,767	(265,338)	1,586,692	550,000
Incurred but not reported health claims	828,223	6,180,871	(5,305,243)	1,703,851	1,703,851
Total School Board	<u>\$ 4,117,021</u>	<u>\$ 7,150,842</u>	<u>\$ (6,107,326)</u>	<u>\$ 5,160,537</u>	<u>\$ 3,808,595</u>
<u>Industrial Development Authority:</u>					
Note payable	\$ 2,781,261	\$ -	\$ (271,308)	\$ 2,509,953	\$ 77,758
Total Industrial Development Authority	<u>\$ 2,781,261</u>	<u>\$ -</u>	<u>\$ (271,308)</u>	<u>\$ 2,509,953</u>	<u>\$ 77,758</u>

A. General Obligation Bonds

General obligation bonds are backed by the full faith and credit of the County. There are no sinking fund requirements. In November 2002, the primary government issued \$7,715,000 of general obligation bonds to provide resources for major renovations to Bruton High School. Principal payments for all general obligation bonds will be made in annual installments and interest payments will be made in semi-annual installments, calculated at 2.35% - 7.44% per annum. The following is a summary of the repayment schedule for fiscal years:

<u>Year</u>	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 2,830,000	\$ 2,244,189
2005	3,015,000	2,020,580
2006	2,985,000	1,857,388
2007	2,990,000	1,698,048
2008	3,080,000	1,539,125
2009 - 2013	14,775,000	5,430,539
2014 - 2018	11,405,000	1,853,395
2019 - 2023	2,660,000	334,558
	<u>\$ 43,740,000</u>	<u>\$ 16,977,822</u>

B. Literary Loans

Literary fund loans consist of loans from the State Literary Loan Fund for the construction and improvement of various schools. Payments will be made in annual installments plus interest calculated at 3 - 4% per annum. The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 160,000	\$ 45,100
2005	160,000	39,200
2006	160,000	33,300
2007	160,000	27,400
2008	150,000	21,500
2009 - 2013	400,000	40,000
	<u>\$ 1,190,000</u>	<u>\$ 206,500</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

6. LONG-TERM DEBT, Continued

C. Compensated Absences

For governmental activities, compensated absences are typically liquidated by the general fund.

D. Lease Revenue Refunding Bonds

Principal payments will be made in annual installments and interest payments will be made in semi-annual installments, calculated at 3 - 4.125% per annum. The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 320,000	\$ 109,816
2005	335,000	100,216
2006	350,000	90,166
2007	355,000	78,791
2008	365,000	66,366
2009 - 2013	1,345,000	121,487
	<u>\$ 3,070,000</u>	<u>\$ 566,842</u>

E. Note Payable

Note payable is a taxable-refunding note used to refinance the Virginia Retirement System (VRS) obligation incurred by the School Board in a one-time early retirement incentive program offered by VRS during the fiscal year 1992. Payments will be made in semi-annual installments plus interest calculated at 7.39% per annum. The following is a summary of the repayment schedules for fiscal years:

Governmental Activities			
<u>Year</u>	<u>Principal</u>		<u>Interest</u>
2004	\$ 180,408	\$	213,121
2005	193,986		199,542
2006	208,586		184,942
2007	224,286		169,243
2005	241,167		152,362
2009 - 2013	1,507,018		460,623
2014 - 2018	372,740		20,784
	<u>\$ 2,928,191</u>	<u>\$</u>	<u>1,400,617</u>

F. Revenue Bonds

The County anticipates that all amount required for the payment of interest and principal on the bonds will be provided by the respective enterprise funds revenues. Payments will be made in semi-annual installments plus interest calculated at 4.75 - 5.875% per annum. The following is a summary of the repayment schedules for fiscal years:

Business-type Activities			
<u>Year</u>	<u>Principal</u>		<u>Interest</u>
2004	\$ 173,566	\$	530,967
2005	183,999		522,696
2006	194,455		513,490
2007	204,933		503,762
2005	210,436		493,509
2009 - 2013	1,235,662		2,295,909
2014 - 2018	1,597,652		1,930,191
2019 - 2023	2,114,399		1,419,417
2024 - 2028	2,807,240		726,973
2029 - 2033	761,945		51,993
	<u>\$ 9,484,287</u>	<u>\$</u>	<u>8,988,907</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

6. LONG-TERM DEBT, Continued

G. Virginia Peninsula Regional Jail Authority Liabilities

In June 2003, the Virginia Peninsula Regional Jail Authority (Jail Authority), of which the County is a member jurisdiction as discussed in Note 1, issued \$21,655,000 of Regional Jail Facility Refunding Revenue Bonds, Series 2003. The original bonds were issued for the purpose of acquiring, constructing and equipping a Regional Jail Facility to serve its member jurisdictions. The bonds bear interest at 2% to 5%, which will be paid semi-annually. The bonds mature in amounts ranging from \$570,000 on October 1, 2003 to \$2,765,000 on October 1, 2018. The outstanding balance at June 30, 2003 is \$21,655,000.

The bonds are limited obligations of the Jail Authority, and do not constitute a general obligation debt or pledge of the faith and credit of any member jurisdiction, nor do they obligate any member jurisdiction to levy or pledge any form of taxation therefore. However, the County has entered into a non-binding moral obligation pledge of the member jurisdictions in which the member jurisdictions have agreed to pay their proportionate share of the debt service on the bonds and any debt service funding requirements if the Jail Authority lacks sufficient funds to do so. The County's proportionate share is 34%.

H. Industrial Development Authority Liabilities

On March 16, 1999, the IDA received a loan commitment of \$2,820,000 from Bank of America (formerly NationsBank) for a loan to pay off the outstanding balance of \$1,800,000 on the 1996 shell building loan and to finance the costs of certain construction and build-out improvements under the terms of a lease agreement for the shell building. In April 1999, the IDA began making monthly payments of interest only at 6.15%. Monthly principal and interest payments began August 1, 1999. The loan is backed by the moral obligation of the County of York, and secured by a credit line deed of trust on the property. Subsequent to year-end, a modification agreement was signed reducing the interest rate to 4.71% and monthly payments to \$16,374. The outstanding balance at June 30, 2003 was \$2,509,953.

On December 19, 2001, the County agreed to loan the IDA up to \$1,000,000 in connection with the relocation and renovation of the Yorktown Freight Shed Building as part of a multi-million dollar renovation project to the Yorktown waterfront area. In order to realize significant savings on the cost of the relocation and renovation of the Yorktown Freight Shed Building, the County is utilizing historic building renovation tax credits, which are available through both federal and Virginia income tax codes. In order to be able to utilize the tax credits, title to the Freight Shed building was conveyed by the Yorktown Trustees to Yorktown Freight Shed, L.P. (a Virginia limited partnership), which has been created to hold title to the building and to oversee the project with money provided by the County through the IDA.

Interest on the outstanding principal balance of the note is due at a rate of 5.5% per annum. The outstanding balance of the note payable at June 30, 2003 was \$397,524. The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 77,758	\$ 118,736
2005	81,880	114,614
2006	85,877	110,617
2007	90,069	106,426
2005	94,185	102,309
2009 - 2013	2,477,709	449,306
	<u>\$ 2,907,478</u>	<u>\$ 1,002,008</u>

7. INTERFUND AND COMPONENT UNIT TRANSACTIONS

The composition of interfund balances as of June 30, 2003 is as follows:

Due to/from Other Funds:

<u>Due From Fund</u>	<u>Due To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Internal Service Fund	Charge-out testing	\$ 66
General Fund	Nonmajor Governmental Fund	Social services contributions	2,761
General Fund	Yorktown Revitalization Fund	Waterfront project	3,211,660
Capital Project - County Capital	General Fund	Waterfront project	767,950
Total Governmental Funds			<u>\$ 3,982,437</u>
Sewer Utility Fund	General Fund	Meals tax	\$ 58,797
Sewer Utility Fund	Solid Waste Fund	Penalty and interest allocation	2,359
Sewer Utility Fund	Nonmajor Enterprise Fund	Penalty and interest allocation	250
Total Enterprise Funds			<u>\$ 61,406</u>

Due to/from Primary Government and Component Units:

<u>Due From Entity</u>	<u>Due To Entity</u>	<u>Purpose</u>	<u>Amount</u>
County of York	School Board	Post employment benefits reserve	\$ 185,000
County of York	School Board	Carryover balance reserve	10,113
Total Governmental Funds			<u>\$ 195,113</u>
County of York	School Board	Scales usage	\$ 585
Total Enterprise Funds			<u>\$ 585</u>
School Board	County of York	School support	\$ 11,462,864
School Board	County of York	Capital improvements	1,759,110
Total Governmental Funds			<u>\$ 13,221,974</u>
County of York	Industrial Development Authority	Economic incentives	\$ 509,388
Total Governmental Funds			<u>\$ 509,388</u>
Industrial Development Authority	County of York	Economic incentives	<u>\$ 400,000</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

7. INTERFUND AND COMPONENT UNIT TRANSACTIONS, Continued

Interfund Transfers:

<u>Fund</u>	<u>Transfers Out Fund</u>	<u>Transfers In Fund</u>
General Fund	\$ 12,955,911	\$ -
Debt Service Fund - Education	-	4,574,458
Capital Project - County Capital	155,233	4,008,577
Nonmajor governmental funds	703	2,019,879
Sewer Utility Fund	29,406	788,743
Solid Waste Fund	-	1,155,233
Nonmajor Enterprise Funds	-	470,064
Internal Service Fund	-	124,299
Total	<u>\$ 13,141,253</u>	<u>\$ 13,141,253</u>

During the year, the General Fund transferred \$2,142,872 to the Capital Projects - Capital Fund for the design of parks and a new communications system. All other transfers were routine and consistent with the activities of the funds making the transfers.

Significant Transactions between Primary Government and Component Units

<u>Purpose</u>	<u>Amount</u>
Payments from County to School Board:	
School operations	\$ (29,984,800)
School technology	(552,500)
School grants	(110,209)
Payments to County from School Board:	
School post-retirement benefits	342,000
Grounds maintenance	869,733
Law enforcement	193,103
DARE program	49,755
Video services	37,608
Impact Aid, school technology, State electronic classroom	823,918
Total General Fund	<u>\$ (28,331,392)</u>
Payments from County to School Board:	
Debt service - Education Fund, Debt proceeds	<u>\$ (8,001,319)</u>
Capital Project Fund - County Capital, school construction	<u>\$ (1,759,110)</u>
Payment to County from School Board:	
Debt service - Education Fund, Debt repayment	<u>\$ 393,528</u>
Statement of Activities - Payment from County of York	<u><u>\$ (37,698,293)</u></u>
Payment from County to Industrial Development Authority:	
General fund - Economic development	<u>\$ 662,600</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

8. SEGMENTS OF ENTERPRISE ACTIVITIES

	Sanitary District No. 2	Solid Waste	Sewer Utility	Yorktown Revitalization	York Sanitary District	Water Enterprise	Water Utility	Total
Operating revenues	\$ -	\$ 3,023,775	\$ 6,831,503	\$ 4	\$ -	\$ -	\$ 1,029,448	\$ 10,884,730
Operating expenses:								
Depreciation	442,745	165,872	1,279,054	12,850	84,742	16,251	44,145	2,045,659
Other	-	3,760,077	3,310,739	23,594	-	-	486,222	7,580,632
Total operating expenses	442,745	3,925,949	4,589,793	36,444	84,742	16,251	530,367	9,626,291
Operating income (loss)	(442,745)	(902,174)	2,241,710	(36,440)	(84,742)	(16,251)	499,081	1,258,439
Total nonoperating revenues (expenses)	(9,193)	(71,477)	(411,203)	-	(1,418)	(3,201)	(2,245,047)	(2,741,539)
Capital contributions	-	-	2,938,340	-	-	-	332,364	3,270,704
Transfers in (out)	-	1,155,233	759,337	-	10	-	470,054	2,384,634
Change in net assets	\$ (451,938)	\$ 181,582	\$ 5,528,184	\$ (36,440)	\$ (86,150)	\$ (19,452)	\$ (943,548)	\$ 4,172,238
Total assets	\$ 11,166,749	\$ 2,793,440	\$ 72,755,308	\$ 3,175,220	\$ 1,353,340	\$ 510,678	\$ 3,399,301	\$ 95,154,036
Total noncurrent liabilities	\$ -	\$ 1,555,171	\$ 9,520,546	\$ -	\$ -	\$ -	\$ 3,096	\$ 11,078,813
Working capital	\$ -	\$ 43,501	\$ 11,967,868	\$ (3,071,656)	\$ 132	\$ -	\$ 379,228	\$ 9,319,073
Total net assets	\$ 11,166,749	\$ 572,751	\$ 62,102,262	\$ (36,440)	\$ 1,353,340	\$ 510,678	\$ 3,312,596	\$ 78,981,936
Acquisition of capital assets	\$ -	\$ 168,414	\$ 3,245,599	\$ 17,637	\$ -	\$ -	\$ 986,117	\$ 4,417,767

9. LEASES

The County leases certain equipment and various office spaces under noncancellable operating lease agreements. A summary of future minimum rental payments under noncancellable operating leases as of June 30, 2003 is as follows:

<u>Year</u>	<u>Primary Government</u>	<u>Discretely Presented Component Unit - School Board</u>
2004	\$ 72,727	\$ 184,565
2005	65,771	17,102
2006	38,367	9,686
Total minimum lease payments	<u>\$ 176,865</u>	<u>\$ 211,353</u>

Rental expenditures for the year ended June 30, 2003 for all operating leases were \$109,485 and \$282,533 for the County and Discretely Presented Component Unit - School Board, respectively.

The County leases the usage of its communications tower under operating lease agreements. The tower is a capital asset listed as a land improvement with a cost of and accumulated depreciation of \$19,200, for a carrying amount of \$0 at June 30, 2003.

The IDA leases the usage of a shell building. The capital asset is listed as a building with a cost of \$2,717,048 and accumulated depreciation of \$271,705, for a carrying amount of \$2,445,343 at June 30, 2003. The lessor has the exclusive option to purchase the building prior to June 30, 2004 at a price equal to \$2,650,000 less the aggregate principal payments paid by the IDA.

A summary of the future minimum rental receipts under noncancellable operating leases as of June 30, 2003 is as follows:

<u>Year</u>	<u>Primary Government</u>	<u>Component Unit - School Board</u>	<u>Component Unit - IDA</u>
2004	\$ 262,006	\$ 117,636	\$ 262,800
2005	229,346	117,636	-
2006	196,054	117,636	-
2007	196,054	117,636	-
2008	199,159	69,056	-
2009 - 2013	999,365	25,165	-
2014 - 2018	768,752	-	-
2019 - 2023	732,774	-	-
2024 - 2028	50	-	-
2029 - 2033	50	-	-
2034	10	-	-
Total minimum lease payments	<u>\$ 3,583,620</u>	<u>\$ 564,765</u>	<u>\$ 262,800</u>

Rental revenue receipts for all operating leases were \$349,037 for the County, \$104,855 for the School Board, and \$262,800 for the IDA for the year ended June 30, 2003.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

9. LEASES, Continued

The County leases certain equipment and a building under capital lease agreements. A summary of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2003 is as follows:

<u>Year</u>	<u>Primary Government</u>		<u>Discretely Presented</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Component Unit -</u> <u>School Board</u>
2004	\$ 114,390	\$ 200,425	\$ 115,941
2005	114,390	199,825	110,946
2006	61,062	199,025	105,950
2007	11,438	203,025	100,955
2008	-	201,625	24,458
2009 - 2013	-	804,600	-
Total minimum lease payments	301,280	1,808,525	458,250
Less amount representing interest	(25,033)	(318,525)	(46,000)
Present value of principal	<u>\$ 276,247</u>	<u>\$ 1,490,000</u>	<u>\$ 412,250</u>

The gross value of capital assets under capital lease agreements is as follows: Governmental Activities - \$660,042 (equipment) and Business-type Activities - \$1,183,701 (buildings).

10. DEFINED BENEFIT PENSION PLANS

A. Plan Descriptions

The County has three defined benefit pension plans. In the first plan (the "County" plan), the County contributes to the Virginia Retirement System (VRS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. The County payroll for employees covered by the VRS for the year ended June 30, 2003 was \$24,322,896 out of the total payroll of \$27,235,502.

In the second plan (the "School Board" plan), professional employees of the School Board are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool. The payroll for professional employees covered by VRS for the year ended June 30, 2003 was \$44,579,462; the total payroll was \$47,197,692. As of June 30, 1992, non-professional employees of the School Board are also covered by the VRS. Non-professional employees participate as a separate group in the agent multiple-employer retirement system. The payroll for non-professional employees covered by VRS for the year ended June 30, 2003 was \$5,940,974 out of the total payroll of \$6,479,514.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employers (age 50 with 25 years for participating local law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits.

In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Participating local law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

In the third plan (the "optional" plan), non-professional employees of the School Board who were not previously covered by VRS are provided pension benefits through a single employer defined benefit pension plan administered by a fiduciary agent of the School Board. The optional plan provides retirement benefits as well as death and disability benefits. As of June 30, 1992, the optional plan was frozen and the non-professional employees who participated in the plan became fully vested. The non-professional employees now participate in the VRS as noted above.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has been assumed by the County and by the School Board. In addition, the County and the School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The County's contribution rate for fiscal years ended 2003, 2002, and 2001, was 6.13%, 7.5%, and 9.24%, respectively, of annual covered payroll.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

10. DEFINED BENEFIT PENSION PLANS, Continued

The School Board's contribution rate for non-professional employees for fiscal years ended 2003, 2002, and 2001 was 10%, 10%, and 10.69%, respectively, of annual covered payroll. The School Board's required contribution for the professional employees for fiscal years ended 2003, 2002, and 2001, was \$3,969,426, \$3,634,937, and \$5,010,201, respectively, and was fully funded for each fiscal year.

C. Annual Pension Cost

The County's annual pension costs of \$1,490,994, \$1,704,260, and \$1,896,308, for 2003, 2002, and 2001, respectively, were equal to the required and actual contributions. The School Board's annual pension costs for the non-professional employees of \$599,222, \$551,058 and \$536,673 for 2003, 2002, and 2001, respectively, were equal to the required and actual contributions. The School Board's annual pension costs for the professional employees of \$3,969,426, \$3,634,937 and \$5,010,201 for 2003, 2002, and 2001, respectively, were equal to the required and actual contributions. The School Board's annual required contributions for the optional plan were \$79,598, \$41,043 and \$43,413, and actual contributions were \$300,000, \$157,000 and \$47,000 for 2003, 2002, and 2001 respectively.

The required contribution for VRS was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25% - 6.1% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the County's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County's funding excess is being amortized as a level percentage of payroll on an open basis within a period of thirteen years.

The actuarial accrued liability for the optional plan was determined as part of an actuarial valuation on June 30, 2002. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7% per year compounded annually, (b) post-retirement benefit increases of 2% per year, and (c) percentage of current retiree benefits to be paid of 100%.

11. COMMITMENTS AND CONTINGENT LIABILITIES

A. Post-Closure Landfill Costs

State and federal laws and regulations require that the County perform post-closure care requirements on its landfill. The landfill was closed on October 9, 1993. Post-closure costs at June 30, 2003 of \$254,843 are expected to be incurred over the next four years. An annual evaluation is performed to determine future costs and actual costs may differ due to inflation, deflation, changes in technology or changes in regulations. Funding of these costs will be from current operating revenues. Post-closure costs are included in liabilities of the Solid Waste Fund as follows:

Construction of methane gas collection system	\$ 2,940
Landfill monitoring and maintenance	<u>251,903</u>
	254,843
Less current portion	<u>(60,000)</u>
	<u>\$ 194,843</u>

B. Risk Management

The County and the School Board are exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County reports all of its risk management activities in its General Fund and pays all claims for retained risks from General Fund resources. The School Board reports all of its risk management activities in its Operating Fund and pays all claims for retained risks from Operating Fund resources. The County and the School Board maintain comprehensive property and casualty policies, commercial general liability policies, comprehensive liability vehicle fleet policies and coverages for errors and omissions, and employer's liability and certain other risks with commercial insurance companies. The General and School Operating Funds retain the full risk for unemployment compensation; up to \$60,000 for each health care claim; and up to \$200,000 for each workers' compensation occurrence subject to a \$600,000 annual aggregate on the combined claims. All unemployment, health care claims and workers' compensation claims are paid through a third-party administrator through resources from the General and School Operating Funds. For all retained risks, claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. There have been no reductions in insurance coverages from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past four fiscal years.

The County health care liability at June 30 is included in salaries, taxes and benefits payable balance of the County operating funds. The County had available \$500,959 for health care claims and \$1,513,149 for workers' compensation claims at June 30, 2003, which is considered sufficient to cover pending claims and incurred but not reported claims that may arise.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

11. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

Changes in the reported liability since June 30, 2001 resulted from the following:

	<u>2003</u>	<u>2002</u>
Accrued liability at beginning of year	\$ 1,834,251	\$ 1,680,340
Claims and changes in estimates	4,139,093	3,968,964
Claims payment	<u>(3,959,236)</u>	<u>(3,815,053)</u>
Accrued liability at end of year	<u><u>\$ 2,014,108</u></u>	<u><u>\$ 1,834,251</u></u>

The School Board health care claim liability at June 30 is included in salaries, taxes, and benefits payable balance of the Schools Operating Fund. The Schools had available \$1,703,851 for health care claims and \$1,586,692 for workers' compensation claims at June 30, 2003, which is considered sufficient to cover pending claims and incurred but not reported claims that may arise.

Changes in the reported liability since June 30, 2001 resulted from the following:

	<u>2003</u>	<u>2002</u>
Accrued liability at beginning of year	\$ 2,345,486	\$ 2,117,385
Claims and changes in estimates	6,515,638	5,769,050
Claims payment	<u>(5,570,581)</u>	<u>(5,540,949)</u>
Accrued liability at end of year	<u><u>\$ 3,290,543</u></u>	<u><u>\$ 2,345,486</u></u>

12. SURETY BONDS

The County of York maintains the following surety bonds at June 30, 2003:

	<u>Amount</u>
<u>Fidelity and Deposit Company of Maryland - Surety:</u>	
Treasurer and/or Director of Financial and Management Services	\$ 750,000
Clerk of the Circuit Court	1,275,000
Sheriff	30,000
Commissioner of the Revenue	3,000
County Administrator	2,000
<u>Travelers Casualty and Surety Company of America - Surety:</u>	
Code Compliance	1,000
<u>Virginia Municipal Liability Pool - Surety:</u>	
All County employees	1,000,000

In addition, the Discretely Presented Component Unit - School Board maintains the following surety bond at June 30, 2003:

<u>Virginia Municipal Liability Pool - Surety:</u>	
All School Board employees	\$ 1,000,000

13. JOINT VENTURE

The County of York has a 76% share of the York County - James City County Joint Sanitary District. Each County is represented on the Joint Sanitary District Board by its Board of Supervisors and exercises control over budgeting and financing. The Joint Board ceased operation as of July 1, 1987 and is in the process of being dissolved. York County will receive 76% of the assets and liabilities upon dissolution.

Summary financial information of the Joint Sanitary District for the year ended June 30, 2003 is as follows:

Assets	<u>\$ 608,786</u>
Liabilities - current	<u>\$ 12,088</u>
Equity	<u>\$ 596,698</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

14. POST-RETIREMENT BENEFITS

Employees retiring after January 1, 2002 and having twenty or more years of service with the County and receiving a VRS annuity will qualify for a health insurance premium contribution from the County. The twenty years need not be consecutive. The retiree's Virginia Retirement System (VRS) annuity may be either a full or reduced benefit. The amount of the County's contribution shall be equal to 50% of the retiree's total monthly health insurance premium subject to the following provisions. The County's 50% contribution will be reduced by the amount of any health insurance credit that the retiree may qualify for under the VRS program. Retiring employees who have fifteen years of service with the VRS will qualify for the VRS Retiree Health Insurance Credit Program. At June 30, 2003, 4 retirees were participating in this program. Expenditures for post-retirement health care benefits are recognized as incurred. During the year, expenditures of \$4,026 were recognized as incurred for post-retirement health care.

The School Board provides post-retirement health care benefits, in accordance with School Board policy, to all employees who retire from York County Public Schools with 100 days of accumulated sick leave, 10 years of service and a minimum of 24 months participation in the health insurance program immediately prior to retirement. At June 30, 2003, 17 retirees were participating in this program. The School Board pays a monthly contribution of \$25 toward the health care program premium for a total period of time not to exceed 10 years or until retiree is eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as incurred. During the year, expenditures of \$13,692 were recognized as incurred for post-retirement health care.

15. DEFERRED COMPENSATION PLAN

The County, including its component unit - IDA, offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the participants. Investments are managed by the plan's trustee under one or a combination of 31 investment options. The participants make the choice of the investment options.

The School Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to all Schools employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until separation from service, retirement, death, disability, financial hardship and/or reaching age 59½.

The Schools offer a selection of investment options to participants. All earnings on the invested funds compound tax-free until withdrawn from the account.

16. DEFERRED REVENUE

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. At June 30, 2003, deferred revenue totaled \$3,676,945. Of this amount, \$2,451,054 represents uncollected tax billings not available for funding of current expenditures; \$514,057 represents the receipt of payments of a tax assessment due on December 5, 2003, but not yet billed; \$116,361 represents a note receivable for a wetlands mitigation plan; \$42,000 represents the advance payment for the Virginia Individual Development Accounts program; \$44,473 represents the advance payment from the City of Poquoson for shared court services; \$17,285 represents tower rentals paid in advance; \$310 represents a lease payment paid in advance; \$150 represents office space rentals paid in advance; \$416,495 represents a note receivable from the IDA; and \$74,760 represents the advance payment of shared expenses for a sewer construction project.

17. RESTATEd BEGINNING NET ASSETS

Effective July 1, 2002, the County established several capital asset policies. The County also performed a capital asset inventory during the fiscal year. As a result, restatements were made to beginning net assets to properly reflect the County's capital assets.

Under GASB 34, the County's statement of net assets includes both noncurrent assets and noncurrent liabilities, which were previously recorded in the General Fixed Asset Account Group and the General Long-Term Debt Account Group. In addition to the capital assets previously recorded in the General Fixed Asset Account Group, the County retroactively capitalized its infrastructure assets.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2003

17. RESTATED BEGINNING NET ASSETS, Continued

The following table shows beginning net assets for governmental activities restated for the effects of the implementation of GASB 34 and effects of the new capital asset policies:

	Primary Government - Governmental Activities	Component Unit - School Board
Fund balance at June 30, 2002	\$ 42,255,831	\$ 12,722,540
GASB 34 adjustments:		
Capital assets (restated)	49,989,074	125,826,439
Accumulated depreciation	(11,920,973)	(32,590,554)
Noncurrent liabilities	(49,649,734)	(4,117,021)
Interest payable	(979,920)	-
Deferred revenue	1,861,028	-
Internal Service Fund (restated)	3,030,322	-
Net assets at June 30, 2002 (restated) - governmental activities	<u>\$ 34,585,628</u>	<u>\$ 101,841,404</u>

In addition, under GASB 34, contributed capital and retained earnings were no longer valid equity accounts. Both of these accounts are now considered net assets. As a result of the new capital assets policies, two of the enterprise funds net assets were restated as follows:

<u>Primary Government - Business-type Activities</u>	<u>Solid Waste</u>	<u>Sewer Utility</u>
Equity at June 30, 2002	\$ 513,906	\$ 57,047,694
Adjustments related to capital assets	(122,737)	(473,616)
Net assets at June 30, 2002 (restated) - business-type activities	<u>\$ 391,169</u>	<u>\$ 56,574,078</u>

18. SUBSEQUENT EVENTS

On September 18, 2003, Hurricane Isabel passed through the County causing extensive property damage from falling trees and storm surge. The County is currently working with its insurance carrier and with the Federal Emergency Management Agency (FEMA) to assess the financial impact of the damages.

In November 2003, the County will issue \$4.1 million in general obligation bonds through the Virginia Public School Authority. The proceeds will be used to finance school construction projects.

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